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THE LAUSANNE REPARATION SETTLEMENT

by

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with the aid of the Research Staff of the Foreign Policy Association

INTRODUCTION

ON November 10, 1932, immediately after the American elections, the French and British governments, in separate notes to the United States, requested a review of the existing régime of intergovernmental financial obligations. At the same time they asked for a suspension, during the period of discussion, of their debt payments due the United States on December 15—\$19,261,432 and \$95,550,000 respectively. President Hoover, in consequence, invited President-elect Franklin D. Roosevelt to Washington for the purpose of discussing recommendations to Congress which will "deal with this question in a constructive fashion for the common good of the country." The President stated further that he was desirous of exchanging views with Mr. Roosevelt regarding the forthcoming World Economic Conference and the Geneva Disarmament Conference which, he added, "also has a great economic purpose, as well as the advancement of world peace." Evidently these major problems of foreign policy are to be viewed in Washington as a unit.

The British and French move is a direct outcome of the Lausanne Conference, which terminated German reparation subject to a subsequent satisfactory settlement with the United States. The British note points out that the Lausanne Conference found it necessary, "in order to allow its work to proceed undisturbed, to reserve during the period of the Conference the execution of the payments due to the participating powers," and expressed the hope that a similar procedure might now be followed with respect to the payments due the United States. Moreover, reference is made in both notes to the fact that the Lausanne Conference was held in accordance with the decision reached by President Hoover and Premier Laval of France in October 1931, that the initiative in settling the reparation problem should be taken by the European powers concerned. With the conclusion of the Lausanne settlement, the European powers feel that it is now the turn of the United States to honor what they regard as its implied promise to revise the debt settlements after Europe had

reached a decision on the reparation problem.

The following report presents the background and history of the Lausanne Conference in an effort to clarify for American readers the importance and significance of the decision on the inter-Allied debt which now rests with the United States.

The Reparation Conference which met at Lausanne from June 16 to July 9, 1932—the thirty-fifth such conference during the post-war years—will doubtless go down in history as marking the end of an era dominated by the attempt to liquidate the costs of a world war. Despite the warnings of many economists that it was impossible to transfer the huge sums involved across international frontiers, the victorious powers, in Article 231 of the Treaty of Versailles, made Germany affirm and accept the responsibility "for causing all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of the war imposed upon them by the aggression of Germany and its allies."

The bill for the war which was presented to Germany in May 1921 totaled 132 billion gold marks (\$31,428,570,000) as "compensation for all damage done to the civilian population by land, sea and from the air...." As war passions cooled, however, and the workings of economic laws became more and more evident, an admittedly temporary reparation settlement—the Dawes Plan—was effected in 1924. The Dawes Plan did not fix the total amount of Germany's obligations, but provided for a standard annuity of 2.5 billion gold marks (\$595,000,000). In 1929 the Dawes Plan was replaced by the Young Plan which scaled down somewhat the Reich's obligations and fixed a definite total sum, the capital value of which was approximately 32 billion gold marks (\$7,600,000,000), or the equivalent of an average annuity of 1.9 billion gold marks (\$473,700,000) for a period of 37 years. The world-wide depression, however, brought about a *de facto* termination of the Young Plan in 1931, and a year later the Lausanne Conference vir-

tually abolished reparation. This Conference, however, provided for a final German payment of 3 billion gold marks (\$714,286,000) which, when and if made, should practically liquidate the Reich's total reparation

POLITICAL BACKGROUND OF THE CONFERENCE

The necessity of a definitive settlement of the vexed problem of intergovernmental debts was finally recognized by responsible statesmen on February 13, 1932 when, after numerous delays, a communiqué was issued in Geneva in the name of the French, German, Belgian, British, Italian and Japanese governments convoking a reparation conference in Lausanne in June 1932. The object of the conference, it was stated, would be "to agree to a lasting settlement" of the reparation question and "on measures necessary to solve the other economic and financial difficulties which are responsible for and may prolong the present world crisis."¹

The increasing seriousness of the world depression, which was daily becoming more apparent, had forced this decision on the governments. During the seven months which had elapsed since July 1931 when the German financial crisis had come to a head, nineteen countries, including Great Britain, had been forced off the gold standard. Moreover, by the spring of 1932 the trade of the chief countries of the world had declined one-half in comparison with 1930; the number of industrial unemployed was estimated by the Economic Committee of the League of Nations at 25 million; and a still larger agricultural population was in dire straits.² Two committees of experts, called together by the Bank for International Settlements, had met in Basle during the last half of 1931 to recommend measures for the assistance of Germany. Both committees had stressed the necessity of prompt action by the responsible governments and had pointed out the pressing need for adjustment of all intergovernmental debts because "transfers from one country to another [in payment of international obligations] on a scale so large as to upset the balance of payments can only

obligations. Thus the German debt outstanding is approximately 2.2 per cent of the Allied demands in 1921, and is actually less than the amount of two annuities under the Young Plan.

POLITICAL BACKGROUND OF THE CONFERENCE

accentuate the present chaos."³ Continued uncertainty concerning the future readjustment of intergovernmental obligations was such a serious barrier to world recovery that it was obvious a settlement must be made before the expiration on June 30, 1932 of the Hoover moratorium. It was anticipated that the definite decision to hold a conference in June would in a measure "ease the international situation," and that during the interval some of the outstanding difficulties obstructing a final settlement of the reparation and debt questions could be brought nearer solution.

It was hoped, in particular, that the uncertain inner political situation in Germany and France would be clarified by the elections which were imminent in both countries.⁴ In Germany, however, these hopes were only partially realized. The re-election of President von Hindenburg on April 10 by a clear majority of 53 per cent constituted the only stable element in an otherwise hopelessly deadlocked situation. The provincial elections of April 24 in Prussia and four other states, comprising in all about five-sixths of the Reich, resulted in a stalemate, so that parliamentary government in a large portion of the Reich became impossible.

In France, meanwhile, general elections for the Chamber held on May 1 and 8 resulted in a decisive victory of the Left parties, which defeated the previous government bloc of Right and Center groups headed by M. Tardieu. The Radical Socialist party, under the leadership of M. Herriot, made the greatest gains and emerged as the largest party in the new Chamber, while the Socialists also increased their mandates. A new Cabinet headed by M. Herriot as Premier and Minister of Foreign Affairs took office on June 4.

REPARATION POLICIES OF HERIOT AND VON PAPEN GOVERNMENTS

The official policy of the new German and French governments with regard to the reparation question, as stated in their ministerial declarations of June 4 and June 7 respectively, proved to be somewhat less unyielding than that previously expressed. Chancellor

1. Cf. Mildred S. Wertheimer, "The Financial Crisis in Germany," *Foreign Policy Reports*, Vol. VII, No. 26, March 2, 1932; also Maxwell S. Stewart, "American Commercial Policy and the World Crisis," *Foreign Policy Reports*, Vol. VIII, No. 6, May 25, 1932. The British government had previously issued invitations to a reparation conference which, after much discussion, was to meet in Lausanne on January 25, 1932. Dr. Brüning's statement of January 9, 1932, that Germany could not continue to pay reparation, caused such a flurry that on January 20 it was announced that the conference would be postponed. Even before Dr. Brüning's *non-possimus* statement, however, there had been rumors current regarding the necessity of postponement because of the need for a prior readjustment of the inter-Allied debt to the United States. Cf. *Frankfurter Zeitung*, January 9, 1932; also *Reparation und Kriegsschulden der Hoover Erklärung zur Lausanner Konferenz* (Berlin, Verlag der Europäischen Revue, 1932), p. 82.

2. Imports into the United States between January 1930 and January 1932 declined in value 58 per cent; exports from the United States declined 64 per cent during the same period. Cf. League of Nations, *World Economic Survey*, Geneva, 1932, p. 157; *The Economist* (London), June 11, 1932.

3. *Report of the Young Plan Advisory Committee . . .* (London, H. M. Stationery Office, 1932), Cmd. 3995. Cf. Wertheimer, "The Financial Crisis in Germany," cited, for summary of the findings and recommendations of both committees.

4. Cf. Mildred S. Wertheimer and Vera Micheles Dean, "The Political Outlook in France and Germany," *Foreign Policy Reports*, Vol. VIII, No. 4, April 27, 1932.

von Papen did not reiterate the German *non-possumus*,^{4a} the government apparently contenting itself with a general statement which merely noted the disturbing influence of existing intergovernmental obligations.⁵ Nevertheless, the government and the German people were at one in believing that the Reich could and should not pay further reparation. Due to the financial crisis of 1931 and the reports of the two Basle committees of experts, German public opinion took it for granted that reparation had come to an end—in fact, if not in law. The Reich was in the grip of a rising wave of nationalism which constituted a veritable *risorgimento*, and which had its origin partly in resentment against the moral implications of the Versailles Treaty, particularly the war-guilt clause which introduced the section of the treaty dealing with reparation.⁶ This sentiment was further increased as a result of Germany's unilateral disarmament, and the failure of the Disarmament Conference to take action on the German claim for equality.

With the accession of the Herriot government, the French evidently recognized the necessity of facing the fact that Germany neither could nor would make any further substantial reparation payments. In his ministerial declaration of June 7, 1932, M. Herriot did not reiterate the Tardieu-Laval pledge to maintain the "sanctity of the Young Plan," but expressed the readiness of his government to discuss proposals which would promote world stability. There were, however, definite limits beyond which no French government dared go. France apparently considered that since Versailles its gains from the peace treaties had been gradually destroyed by Germany, which had offered no compensation in return; that it had made concession after concession to Germany without in any way relieving the tension in Franco-German relations. The fact which rankled above all in French minds was that German nationalism had reached its culmination after French evacuation of the Rhineland five years before the date specified in the Versailles Treaty. The French believed that the Reich should have been grateful for this concession; instead, however, the growing Hitler agitation against the treaty, the claim for equality in armament, the widespread German sentiment for revision of the Eastern frontiers and resentment against the prohibition of Austro-German union had fed the flame of German nationalism.⁷ Fear of the Reich made it impossible, from the French point of view, to grant concessions of any kind to Germany at Lausanne without some *quid pro quo* which would increase French security.

4a. Cf. p. 221, footnote 1.

5. *Frankfurter Zeitung*, June 5, 1932.

6. Cf. p. 220.

7. Cf. *Der deutsche Volkswirt*, June 17, 1932.

AMERICAN POLICY ON INTERGOVERNMENTAL DEBTS

A further factor of perhaps equal importance in determining French policy at Lausanne was the position of the United States with regard to the inter-Allied debt. France had consistently maintained that there could be no reduction in reparation without corresponding reduction in the French debt to the United States. The joint communiqué⁸ issued by M. Laval and President Hoover at the time of the French Premier's visit to Washington in October 1931 had been generally interpreted to mean that, after the European powers had agreed to reduce German reparation, the United States would readjust the inter-Allied debt. The United States Congress, however, in approving the Hoover moratorium, expressly declared against cancellation or reduction, and on June 8, 1932, shortly before the Lausanne Conference convened, the State Department made an oral announcement that the question of reparation must be settled between Germany and its creditors; that total cancellation would make the United States the only government that surrendered everything and received nothing, a situation which certainly would not appeal to the American people; and that Congress had already declared against cancellation or reduction in its joint resolution of December 1931.⁹ This declaration was interpreted to mean that, despite the Hoover-Laval agreement, the Hoover administration would take no further action on such a controversial issue before the November elections. As a result, the European governments were faced with the necessity of reaching a decision regarding reduction or cancellation of German reparation without any assurance that the United States would eventually agree to make a corresponding cut in the war debts. The Lausanne Conference convened in the dark shadow of this uncertainty.

The British and Italian governments were of the opinion that cancellation of reparation and inter-Allied debts would be the most effective means of settling the world's financial problems and thus insuring recovery.¹⁰ Many in Britain and France, however, were apprehensive that Germany, once released from its entire reparation obligation, would in a short time rise phoenix-like from the ashes of its present economic and financial difficulties and, with its highly developed industrial

8. Cf. Wertheimer, "Financial Crisis in Germany," cited; also Maxwell S. Stewart, "The Inter-Allied Debt: An Analysis," *Foreign Policy Reports*, Vol. VIII, No. 15, September 28, 1932. Full text in U. S. Department of State, *Press Releases*, October 31, 1931.

9. *New York Times*, June 9, 1932.

10. Cf. Statement of Chancellor of the Exchequer, Neville Chamberlain, in the House of Commons, February 2, 1932; *New York Times*, February 3, 1932; *ibid.*, January 13, 1932, for summary of article in Premier Mussolini's organ, *Il Popolo d'Italia*.

apparatus, constitute a formidable competitor in world markets. It was also feared that the relatively small German internal public debt would aid the favorable competitive position of the Reich. There was considerable feeling, therefore, that eventually Germany would be in a position to make a final reparation payment.¹¹

Motivated partly by the international situation as well as by the fact that France and Britain are the two largest debtors of the United States, M. Herriot invited the British government to Paris for conversations pre-

liminary to the Lausanne Conference.¹² These discussions, which took place from June 11 to 14, apparently proceeded in a friendly fashion. Many observers believed that with M. Herriot's advent to power the French showed more appreciation of the British point of view, and that the British had made every effort to understand the special circumstances motivating the French position.¹³ The official communiqués and statements issued to the press emphasized the similarity of views of the two governments, and their determination to make the Lausanne Conference effective.

THE WORK OF THE LAUSANNE CONFERENCE

The Lausanne Conference opened on June 16¹⁴ and elected Prime Minister MacDonald of Great Britain president, and Sir Maurice Hankey secretary-general. In his opening address Mr. MacDonald struck a note which set the tone of subsequent public discussions. He stated that "engagements solemnly entered into cannot be set aside by unilateral repudiation," and pointed out that this principle carries the absolutely essential corollary that "if default is to be avoided engagements which have proved incapable of fulfillment should be revised by agreement." After stressing the necessity of a settlement on a broad basis, Mr. MacDonald said:

"I repeat that in failure there is no France, no Italy, no Germany, no America, no Great Britain apart from the rest of the nations of the world. There is nothing smaller than a world, there is nothing less than a system, which is crumbling under our feet."

The British Prime Minister linked disarmament with reparation, stressing the fact that "success at Lausanne cannot be fully reaped without success at Geneva."¹⁵

Acting on British initiative, the Conference without delay drew up a declaration¹⁶ providing that payments on reparation and war debts due powers participating in the Conference after the expiration of the Hoover moratorium on June 30 were "reserved" during the period of the Conference. For the month of July these payments amounted to approximately \$43,000,000, comprising mainly German reparation annuities, both conditional and unconditional, and

sums due to Great Britain from France, Italy and Belgium on account of war debts, as well as a payment from Czechoslovakia.¹⁷ The service of the Dawes and Young loans was expressly excepted from the provisions of the declaration. By "reserving" these payments, the pressure of making momentous decisions during the fortnight remaining before the Hoover year expired was removed, and the possibility of a default during the Conference forestalled. The Hoover moratorium, in so far as it concerned reparation and inter-European war debts, was thus prolonged.

GENERAL STATEMENTS OF NATIONAL POLICY

The Conference proceeded, on June 17, to formulate statements of national policy which stressed the general economic situation, rather than the reparation question in the narrower legal sense, and were remarkable mainly for their moderate and non-provocative tone. The German Chancellor, von Papen, spoke first, admitting the legality of the Hague Agreements and the Young Plan, but stating that it was not the task of the Lausanne Conference to deal with the legal aspects of the reparation question. He reviewed the events of the last three years of unparalleled crisis, the major causes of which, he declared, were "international public debt and uneconomic political payments." The Chancellor then gave a detailed description of the German situation, the grave unemployment leading to despair and political radicalism, and stressed the declining German export surplus which was rapidly endangering the service on the German private debts. Herr von Papen argued further that there was no danger that Ger-

11. *Journal de Genève*, July 9, 1932.

12. Cf. *The Times* (London), June 9, 1932.

13. *Ibid.*, June 11 and 13, 1932.

14. The six inviting powers were: France, Great Britain, Germany, Italy, Belgium and Japan. The following countries also participated in the conference: Australia, Canada, Greece, India, New Zealand, Poland, Portugal, Rumania, Czechoslovakia, the Union of South Africa and Yugoslavia. Bulgaria and Hungary were subsequently represented. Cf. *Final Act of the Lausanne Conference* (London, H. M. Stationery Office, 1932), Cmd. 4126. The United States, contrary to its practice at previous important reparation conferences, was not even represented by an observer.

15. *The Times* (London), June 17, 1932.

16. The declaration was signed late on June 16 by Great Britain, France, Italy, Belgium and Japan, and published the following day. The other states represented at Lausanne subsequently associated themselves with it. Text in *Final Act of the Lausanne Conference*, cited.

17. These consisted of monthly annuity instalments of 8,325,000 gold marks due Great Britain from France on July 1, similar instalments due Great Britain from Italy and Belgium amounting to 4,500,000 and 1,575,000 gold marks respectively, and the Czechoslovak Liberation Debt amounting to 5,000,000 gold marks; a German reparation instalment of 132,000,000 gold marks to the creditor powers; and finally two war-debt instalments due Great Britain from France and Italy on July 15 amounting to £1,041,666 and £343,168 respectively. *The Times* (London), June 18, 1932.

many, relieved of its political debt, would become a powerful competitor abroad since inflation had greatly weakened the competitive capacity of German industry.

Chancellor von Papen was followed by M. Herriot, who stated that the French delegation accepted the conclusion of the Basle Report¹⁸ that the present economic crisis exceeded in extent the "relatively short depression" contemplated in the Young Plan. The French agreed, too, that Germany's financial difficulties were in large measure at the root of the world credit paralysis. M. Herriot declared, however, that the Basle Report had also confirmed the fact that Germany would certainly recover one day and that German industry had created a workshop on a grand scale. The French Premier then pointed out how great would be his country's loss in the event of cancellation, and stated that in his opinion such a solution would be neither fair nor efficacious and would not bring about a return to stability. "For such a return, security must be improved," he said. "We assert this principle; there can be no political peace without economic peace, but there can be no economic peace without political peace."

Following M. Herriot, Mr. Neville Chamberlain, Chancellor of the British Exchequer, also urged the necessity of a final settlement. Without regard to "capacity to pay" and despite the special position of Great Britain as both creditor and debtor, Mr. Chamberlain urged a "general wiping of the slate, provided that all other governments concerned would do the same."¹⁹

THE BRITISH ADVOCATE

A "CLEAN SLATE"

The conclusion of these general statements marked the end of the first phase of the Conference, which then resolved itself for the most part into private discussions between Mr. MacDonald and M. Herriot. During the course of these conversations, the British Prime Minister attempted to convince his French colleague of the advantages of wiping the slate clean of all European inter-governmental payments, both because of the ultimate reaction of such a policy on the United States in future negotiations regarding the adjustment of war debts and, above all, on the basis of the general economic arguments for cancellation. The French, while reconciled to the fact that Germany could pay nothing for the present, continued to argue for the retention of the principle of reparation payments and for the establishment of safeguards to prevent the Reich, in the event of economic recovery, from gaining an unfair advantage due to superior

industrial equipment. The French demands were eventually reduced to a claim for a final German payment—the so-called *solde net*—as a general German recognition of indebtedness²⁰ and as coverage for the French debt to the United States as well. Mr. MacDonald, in his rôle of go-between, so informed Herr von Papen. The German delegation, however, in an unpublished *aide mémoire*, refused to accept this proposal on the ground that any future payment would react to the detriment of its private creditors. At the same time, the Germans were reported ready to offer compensation in other fields, such as commercial policy and the general reconstruction of Southeastern Europe.

At this point, on June 21 and 22, through the efforts of President Hoover to revive the Geneva Disarmament Conference, the question of disarmament suddenly took the center of the stage. As a result, there were many rumors linking acceptance of the Hoover disarmament plan with future American concessions in regard to debts but these were firmly denied by the Department of State in Washington.²¹

In Lausanne the Anglo-French conversations were deadlocked, and it seemed advisable to initiate direct negotiations between the Germans and the French who up to this time had dealt with one another only indirectly through Mr. MacDonald. Consequently June 24, when Herr von Papen and M. Herriot met for the first time for a personal interview which was followed by a joint meeting of the French and German delegations, marked the beginning of the third stage of the Conference. At these meetings the German economic and financial situation was once more described, and the French again stressed the fact that in the future German industry would certainly recover and make possible the collection and transfer of some—perhaps limited—amount of money. It was clear, however, that the Germans must make the next move since it was felt that in asking for remission of their debts, which everyone agreed they could not meet for the present, they should offer something in compensation.²² After this exchange of opinions, the German and French Premiers departed to spend the week-end in Berlin and Paris respectively.

GERMANY INJECTS POLITICAL FACTORS

Before leaving for Berlin, Herr von Papen, in a conversation with the editor of the Paris *Matin*, remarked that "he was the first to acknowledge the right of France to compensation for the renunciation of repara-

20. Cf. *ibid.*, June 22, 1932; *Der deutsche Volkswirt*, July 8, *Frankfurter Zeitung*, June 21, 1932.

21. Cf. U. S. Department of State, *Press Releases*, June 25, 1932.

22. *Journal de Genève*, June 24 and 25, 1932; *Frankfurter Zeitung*, June 25, 1932; *The Times* (London), June 25, 1932.

18. *The Report of the Young Plan Advisory Commission*, cited.

19. Cf. *The Times* (London), June 18, 1932.

tion." The publication of this interview caused a furor in the Reich. The German Right press scathingly attacked the Chancellor for even admitting that France was entitled to "compensation."²³ Although von Papen publicly stated that the *Matin* had published the interview without his authorization, the incident undoubtedly forced him to take a more intransigent attitude on his return to Lausanne, and was probably responsible in part for the fact that, shortly after the resumption of Franco-German negotiations, political factors were thrust to the center of the stage by the Germans.

Negotiations were resumed on June 27 in an atmosphere which M. Herriot characterized as much less cordial than that which had prevailed the previous week. The German Finance Minister, Count Schwerin von Krosigk, however, after repeating Germany's case for complete cancellation, told the French delegates that the Reich was anxious to show its good will and was prepared to make a direct contribution, within the limit of its restricted means, to a general pool for the reconstruction of Central and Southeastern Europe.²⁴ M. Herriot apparently still held out for a final payment and for the principle of reparation; the psychological difference between the reparation—or "tribute" payments—for which the French asked and a voluntary contribution to a European reconstruction pool formed the obstacle to agreement.

On June 29, Chancellor von Papen issued a statement which showed plainly the effects of his week-end in Berlin. Ostensibly made to correct "misleading" statements which had appeared in the French press regarding the Anglo-French-German conversations of June 28, the German statement declared:

"The confidence of the world can only be restored if the victorious powers bring themselves to eliminate the discriminating clauses of the Versailles Treaty. If thereby Germany's equality of status and security were re-established, it might be possible for Germany to pay its share toward the general effort of reconstructing world economy in the form of a contribution to which the full restoration of economic equilibrium in Germany and in the world is naturally a prerequisite."²⁵

This injection of political questions created a bad impression and added to the difficulties of the Conference.²⁶ In fact, it was apparently due almost entirely to the efforts of Mr. MacDonald that the Conference survived this crisis. The British Prime Minister suggested to the plenary session which met on the afternoon of June 29 the appointment of a "Bureau" charged with the examination of the present position of repa-

ration in the light of the preliminary study which had already taken place. By adopting this course, the Conference was temporarily estopped from adjourning without reaching a decision. An Economic Committee, composed of the Ministers of Commerce of each country, was set up at the same time to prepare a report on "the measures necessary to solve the other economic and financial difficulties which are responsible for and may prolong the present world crisis"—a subject which formed the second part of the Lausanne Conference agenda.

Thus Lausanne, for the time being, was steered away from political difficulties. The Bureau settled down to intensive work and, while progress was slow, it may be said that with the appearance of technical experts the Conference entered its fourth and last stage and came to grips with the actual details of a settlement. For four days the Bureau discussed possible arrangements for a final German payment, probably in the form of bonds to be issued by the Bank for International Settlements when German credit and the international bond market warranted. There was talk of including an "index of prosperity" for the Reich but the German delegation stood firm against such a provision, insisting that the Lausanne settlement must be final and definitive as to amount. The German payment was apparently still envisaged as a contribution to a European reconstruction pool. Herr von Papen's political demands of June 29 were not mentioned, but a further difficulty arose when the French insisted that some provision be made in case payments to the United States on the inter-Allied debt had to be continued. The Germans, however, refused to accept any such contingent arrangement.²⁷

EFFECT OF AMERICAN OPPOSITION TO CANCELLATION

The French insistence on a final German payment, as opposed to complete cancellation, seems to have been strengthened by the position of the United States. The French delegation, at a private meeting on June 29, declared that:

"In practice, cancellation pure and simple will not give us the basis of an accord with the United States. And failing a settlement with America, a final settlement [of the reparation question] is not possible. The results obtained at Lausanne will remain without definitive effect. This we affirm with all certainty."

"The French delegation, after receiving information of a most reliable character yesterday, has adopted a plan which it believes will facilitate the pourparlers with the United States when an opportune moment arrives. . . .

"The delegation believes that cancellation, pure and simple, would actually be regarded by the United States as an act of defiance with respect to the principal creditor, whose title to pay-

23. *The Times* (London), June 27, 1932.

24. *Ibid.*, June 28, 1932. Apparently this was the first time the Germans had made such an offer.

25. *Frankfurter Zeitung*, June 30, 1932.

26. *The Times* (London), June 30, 1932.

27. *Ibid.*, July 1, 1932; *Der deutsche Volkswirt*, July 8, 1932.

ment the delegation neither can nor wishes to discuss."²⁸

Apparently the French argument that complete cancellation would displease the United States greatly impressed the other delegates. The introduction of this issue seems to have initiated the long and difficult negotiations on the amount of the final German payment.

On July 2 the creditor powers agreed to preliminary proposals on the basis of which it was hoped that a settlement could be reached. These "suggestions," which were handed to the Germans on July 3, included cancellation of reparation and an eventual German contribution to "economic reconstruction" by means of a bond issue of four billion marks to be negotiated by the Bank for International Settlements. It was suggested that the Bank's council, acting by majority vote, should decide when such bonds could be issued without disturbing normal economic relations.²⁹

AGREEMENT ON A FINAL GERMAN REPARATION PAYMENT

These proposals were not made in the form of an offer to be accepted or rejected, but German observations were invited. These, however, were unfavorable and raised several objections, again bringing forward political issues. Instead of four billion marks, the Germans apparently offered two billion; they asked that the Bank's decision be made by unanimous vote; and they objected to the incorporation of any proviso making ratification dependent on a prior settlement with the United States.³⁰ Finally, the Germans demanded elimination of Article 231 of the Versailles Treaty, the so-called "war guilt" clause, which has been more bitterly resented in Germany than any other provision of the treaty.³¹

From this time on the Conference settled down to actual bargaining and, although superficially the differences between the Germans and their creditors did not seem important, actually the Conference experienced a period of extreme crisis during which

all seemed lost. The principal difficulty was caused by the re-appearance of politics in the form of the war-guilt and equality issues. In the financial field the "clean slate" policy had been abandoned by the British—whose stand was doubtless influenced by the alleged opposition of the United States to cancellation—when the Germans themselves came to the conclusion that they could pay something so long as it was not called "reparation." Furthermore, the Germans had indicated that if the "war guilt" clause were eliminated they might even be able to pay a little more. The Italians added a fresh complication at this point by announcing on July 4 that they were more than ever convinced that the "only possible solution at Lausanne in the interests of all is the 'clean slate' solution."³² The statement went on to stress the necessity of a final settlement along the lines of the Lausanne declaration of June 16.³³ The explanation for Italy's action was doubtless to be found in the prevailing uncertainty regarding the inter-Allyed war debts.³⁴

The Italian memorandum caused a slight flurry, but did not divert the Conference from its efforts to reconcile Franco-German difficulties. The French declared that they could not consider political concessions to the Germans in any form, while the Germans, feeling that they must have something to compensate public opinion at home for a final payment, remained equally firm. The Conference reverted to its original procedure—Mr. MacDonald talking in turn with M. Herriot and Herr von Papen—but the deadlock was unbroken. The only advance was a new German offer to pay 2.6 billion marks instead of the original two billion. Political difficulties, however, remained the real stumblingblock.³⁵ It was not until midnight of July 7 that there was any sign of compromise when, in the small hours of July 8, it was reported that the situation had improved. On the morning of July 8 a formula was found and an agreement reached.

ANALYSIS OF THE LAUSANNE SETTLEMENT

The settlement falls into three parts:

1. An agreement with Germany concerning reparation; a "Gentlemen's Agreement" concerning ratification of the Lausanne settlement by the creditor powers, which does not form part of the Final Act of the Conference and was published later; and a recommendation concerning non-German reparation.

2. Resolutions setting in motion preparations for two important international conferences, a world economic conference, and a meeting to deal with the reconstruction of Central and Eastern Europe.

3. A pact dealing with "future European co-operation" which was not part of the Final Act and was not published until several days after the Conference had adjourned.

The political problems which had made agreement so difficult, particularly during the final stages of the Conference, are not actually mentioned in the introductory Declaration of the Agreement with the Reich, which states:

31. Cf. *The Times* (London), July 5, 1932.

32. Cf. *ibid.*, July 5, 1932.

33. Cf. p. 223.

34. *The Economist*, July 9, 1932; for final declaration regarding inter-European war debts, cf. p. 228.

35. Cf. p. 222.

28. Memorandum dated June 29 prepared by the French delegation and given to selected newspaper correspondents. The oral declaration of the State Department on June 8 confirms this statement. Cf. p. 222.

29. Cf. *The Times* (London), July 4, 1932.

30. Cf. *The Economist*, July 9, 1932.

"The Powers signatory of the present Agreement have assembled at Lausanne to deal with one of the problems resulting from the war, with the firm intention of helping to create a new order, permitting the establishment and development of confidence between the nations in a mutual spirit of reconciliation, collaboration and justice.

"They do not claim that the task accomplished at Lausanne, which will completely put an end to Reparations, can alone assure that peace which all the nations desire. But they hope that an achievement of such significance and so arduously attained will be understood and appreciated by all the pacific elements in Europe and the world, and that it will be followed by fresh achievements.

"These further successes will be more readily won if the nations will rally to this new effort in the cause of real peace, which can only be complete if it is applied both in the economic and in the political sphere and rejects all possibility of resort to arms or to violence.

"The signatory Powers will make every effort to resolve the problems which exist at the present moment or may arise subsequently in the spirit which has inspired the present Agreement."^{35a}

The actual agreement provides that Germany shall make an eventual payment to its creditors of three billion gold marks in the form of bonds to be delivered to the Bank for International Settlements as trustee. These bonds are to carry interest at 5 per cent and sinking fund at one per cent, and are subject to the following arrangements:

1. The bonds will not be negotiated by the Bank for International Settlements for at least three years (not until July 9, 1935), and all bonds which the Bank has been unable to negotiate during the following twelve years—by July 9, 1947—are to be cancelled.

2. The Bank is to negotiate the bonds—after the expiration of the three-year period—by issuing them to be sold on the world markets, "as and when possible, in such amounts as it thinks fit, provided that no issue shall be made at a rate below 90 per cent."

3. The proceeds of the bonds are to be placed to a special account by the Bank for International Settlements, but the definite allocation of the funds "shall be settled in due course between the Governments, other than Germany, signatory to the present [Lausanne] Agreement." The original plan of a European reconstruction pool seems to have been dropped, thus making it possible to apply the final German payment to a debt settlement with the United States.

Thus it is left to the discretion of the Bank for International Settlements, which "shall take the advice of the President of the Reichsbank" but may act by majority vote,³⁶ to decide when and in what amounts the bonds may be issued without endangering German credit or disturbing normal economic relations.

It is difficult to estimate the precise value of the Lausanne settlement. If, however, the full amount of the bonds is issued in July 1935—a most unlikely eventuality—the German annual obligation would be 180 million gold marks for a period of 37 years, and

the present value of the total payment (discounted at 5 per cent) approximately 2.6 billion gold marks.³⁷

The fact that the bonds may not be issued under 90 is designed to safeguard German credit from a premature negotiation of these securities.³⁸ Nevertheless, the Bank for International Settlements has the right, five years after the signature of the Lausanne Agreement, to vary the selling price of the bonds if it feels that German government credit has been entirely restored despite the fact that quotations on other German bonds remain under 90.³⁹ On the other hand, the German government may request that the rate of interest be lowered below 5 per cent if it has proved possible to market the bonds at par. Furthermore, the German government has the right to redeem at par bonds which have not been marketed. In determining the terms of issue of the bonds, the Bank for International Settlements is to take into account the desirability of giving the German government the right to redeem them after a reasonable period. A further safeguard for the creditor powers is to be found in the provision that one-third of the proceeds of any long-term⁴⁰ foreign loan issued by the German government or guaranteed by it after the Lausanne Agreement comes into force is to be used by the Reich to redeem an equivalent amount of the bonds negotiated by the Bank for International Settlements. On the whole, however, the real essence of the agreement is that the Bank will issue the bonds in amounts and at times when they can actually be absorbed by the world markets. This can occur only when German credit has been completely restored, and a corresponding revival of international credit and trade has taken place.

The final undertaking Germany has accepted in the Lausanne Agreement cancels its previous obligations under the Young Plan, with the exception of the service on the Dawes and Young loans which the Reich must still meet. The Lausanne settlement has left undisturbed the following German obligations:⁴¹

37. Cf. Erich Weiler, *Das Abkommen von Lausanne* (Frankfurt-am-Main, Societäts-Verlag, 1932), p. 16 *et seq.*

38. There was apparently some sentiment at the Conference in favor of allowing Germany's creditors to endorse the bonds and thus stand security for them, an act which might have artificially raised their value and made it possible to float the bonds earlier. Such an endorsement, however, would have made the issuance of the bonds dependent on the credit of the creditor states rather than on German credit, and it was therefore felt that it would in the long run defeat its own ends. *Ibid.*, p. 13-14.

39. Such action requires a two-thirds majority of the board of the Bank for International Settlements.

40. For a period of more than twelve months.

41. Reparation payments in kind are also cancelled with the exception of deliveries already contracted for which are to be the subject of a further settlement. Conversations to this end have apparently already taken place.

OUTSTANDING GERMAN OBLIGATIONS*

(in millions of RM)

Year ending June 30	Dawes Loan	Young Loan	Belgian Mark Settlement	Mixed Claims	To U. S. Army of Occupation	Totals
1933	85.2	63.8	22.6	40.8	25.3	237.7
1934	83.9	63.8	26.0	40.8	18.6	233.1
1935	82.6	63.8	26.0	40.8	18.6	231.8
1936	81.3	63.8	26.0	40.8	18.6	230.5
1937	80.0	63.8	26.0	40.8	18.6	229.2
1938	78.7	63.8	26.0	40.8	16.4	225.7
1939	77.4	63.8	26.0	40.8	16.4	224.4
1940	76.1	63.8	26.0	40.8	18.6	223.3
1941	74.9	63.8	24.5	40.8	18.6	222.6
1942	73.5	63.8	20.1	40.8	25.3	223.5
Runs until 1949	1965	1966	1981	1966		

* Cf. Welter, *Das Abkommen von Lausanne*, cited, p. 18.

Furthermore, the arrears in reparation payments under the Hoover moratorium, amounting to 1.6 billion marks, are cancelled and the settlements in regard to these annuities voided. The loans made by the Bank for International Settlements to the German railways from the unconditional annuities, under these agreements are cancelled, so that it will be unnecessary for the Reich to repay them.⁴²

During the period of transition until the Lausanne Agreement comes into force, the declaration of June 16, 1932⁴³ will remain in effect as concerns Germany, and all further payments from Germany under the Young Plan and the repayment of the sums postponed under the Hoover year are suspended. Furthermore, non-German reparation is suspended as well, and the question of its eventual settlement has been referred to a committee which is to consist of one representative from each of the governments concerned.⁴⁴ This settlement is to be made by "viewing [non-German reparation] within the framework of a general settlement."

PREPARATION FOR A
WORLD ECONOMIC CONFERENCE

The Lausanne Conference also initiated preparations for two further international meetings. A committee was appointed to submit proposals to the Commission of Inquiry for European Union concerning the reconstruction of Central and Eastern Europe and stressing the need of measures to overcome the present transfer difficulties and make possible the progressive suppression of existing systems of exchange control; to

42. By the London agreement of August 11, 1931, the unconditional annuities due under the Young Plan were paid into the Bank for International Settlements by the Reich during the Hoover year and most of this money was then returned to the German railways in the form of a loan. Cf. *Report of Committee of Experts respecting Suspension of certain Inter-Governmental Debts falling due during the year ending June 30, 1932*, together with Protocols and Declarations signed at London, August 11 and 13, 1931 (London, H. M. Stationery Office, 1931), Cmd. 3947.

43. Cf. p. 223.

44. F. M. Theunis (Belgium) was subsequently appointed chairman of this committee. Cf. *The Times* (London), July 11, 1932.

45. M. Georges Bonnet of France was appointed chairman of this committee which met at Stresa September 5-20, 1932. This conference will be discussed in a subsequent issue of *Foreign Policy Reports*.

revive trade between these countries themselves and between other states; and to overcome the difficulties caused to the agricultural countries by the low price of grains.⁴⁵

The agenda of the Lausanne Conference had specifically charged that body to decide on measures necessary to solve the world crisis. Having reached an agreement on the reparation question, a resolution was accordingly passed by the Conference listing the main financial and economic questions which must be studied by a world economic and financial conference and providing for a committee of experts to prepare for such a conference, which it invited the Council of the League of Nations to convoke.⁴⁶

The formal signature of the Lausanne agreements took place on July 9, 1932 at a final plenary session of the Conference. Before the signatures were affixed, Sir John Simon, British Foreign Secretary, stated that the declaration of June 16, 1932⁴⁷ suspending all payments on intergovernmental obligations as between the powers represented at Lausanne had been extended to apply to the French and Italian war debts owing to Great Britain "until the coming into force of the Lausanne Agreement or until it has been decided not to ratify that Agreement." In the latter eventuality, the legal position would be the same as that existing under the Young Plan, and the "British and French (Italian) Governments would have to examine together the *de facto* situation which would be created."⁴⁸ The Final Act of the Lausanne Conference was then signed with great solemnity, and Mr. MacDonald made a valedictory address in which he said:

"There are no more Reparations! Those great payments of sums which represented no transfer of goods have not been a punishment to one nation but an affliction to all. . . . Europe cannot exist alone. . . . whatever arrangements we have come to [at Lausanne] will have to be fitted into a world framework. . . . [they] must have a response elsewhere."

46. The United States was asked to participate in the work of this preparatory committee and has accepted.

47. Cf. p. 223.

48. *Further Documents relating to the Settlement reached at the Lausanne Conference* (London, H. M. Stationery Office, 1932), Cmd. 4129.

These last remarks were interpreted as aimed at the United States.⁵⁰

THE "GENTLEMEN'S AGREEMENT"

It had become evident before the end of the Lausanne Conference that this interpretation was correct and that an understanding regarding ratification had been reached at Lausanne which was not incorporated in the published text of the final agreement. The latter merely states that the settlement will come into force as soon as it has been ratified by Germany, Belgium, France, Great Britain, Italy and Japan; meanwhile, the transitional measures suspending all payments are to remain in effect. The question of eventual non-ratification had been raised by Chancellor von Papen at the plenary session of the Conference on the evening of July 8, when he inquired what procedure it was proposed to follow in case one of the six powers did not ratify. To this query, Mr. MacDonald replied that he wished to put on record in the name of the inviting powers that, in the event of any inability to fulfil the agreement and its annexes, a further conference would be held. He refrained from stating, however, that in case of non-ratification the Young Plan would be in force once more.

Meanwhile there were persistent rumors that the chief creditor powers had agreed not to ratify the Lausanne Convention until they had reached a satisfactory settlement with their own creditors —i.e., the United States. American dispatches from Lausanne stated that such a "Gentlemen's Agreement" existed, and the French press was equally definite on this point.⁵¹ The London *Times* also published a guarded reference to it on July 9. Nevertheless no official publication of the agreement was made when the Lausanne Agreement was published on July 8. The general gratification, particularly in the United States, at the successful outcome of the Conference was largely destroyed when it was learned that the settlement was dependent on prior readjustment of the debts to the United States. Furthermore, in the British House of Commons, the debate on Lausanne, which had been fixed for July 12, was preceded on July 11 by a strenuous attack launched by Mr. Winston Churchill, who declared that the entire work of the Conference had been nullified by the secret agreement.⁵² There were renewed attacks and demands for official publication of the agreement when Mr. MacDonald defended the entire Lausanne settlement in the House on the following day. In reply, Sir John Simon stated that as soon as the assent of the other

signatories had been secured, the document would be published, and it was finally issued as a British White Paper on July 14.⁵³

This document revealed that the Gentlemen's Agreement—officially called a *procès-verbal*—had been initialed by Belgium, Great Britain, France and Italy on July 2, six days before the final settlement was reached at Lausanne.⁵⁴ From the fact that the agreement was initialed as early as July 2, it may be regarded as a concession to France in return for the latter's sacrifice of German reparation, and as a logical and natural outcome of the general uncertainty with regard to eventual action by the United States on the war debts. As one commentator has stated:

"The simple fact is that certain of the European creditor countries were not willing finally to sign, seal and deliver an agreement affecting one side of their budgets until they knew where they stood in regard to the tangled skein of the international debts of which the debts to America are a very important part."⁵⁵

ANGLO-FRENCH PACT FOR EUROPEAN COOPERATION

Besides the Gentlemen's Agreement, another arrangement negotiated at Lausanne came to light after the Conference adjourned. On July 13 an Anglo-French pact was announced concerning "methods for promoting future European cooperation." This instrument states that, in accordance with the spirit of the Covenant of the League of Nations, the signatories "intend to exchange views with one another with complete candour concerning, and to keep each other mutually informed of, any questions coming to their notice similar in origin to that now so happily settled at Lausanne which may affect the European régime." Furthermore, the signatories pledge themselves to work together and with other delegations at Geneva to find a solution of the disarmament question "which will be beneficial and equitable for all the powers concerned." The agreement applies also to cooperation in preparation for the World Economic Conference and states that the signatories will "avoid any action of the nature of [economic] discrimination by the one country against the interests of the other." Other European governments are invited to adhere to the accord.⁵⁶

The reception of this pact was very mixed. In France it was regarded as a revival of

53. *Further Documents relating to the Settlement reached at the Lausanne Conference*, cited.

54. It was notified to Germany and acknowledged by Chancellor von Papen on July 9, but the Germans had nothing to do with its inception or formulation; on the contrary, they took pains to point out that the agreement could in no way be interpreted as drawing Germany into a united front of American debtors. Cf. Welter, *Das Abkommen von Lausanne*, cited, p. 9.

55. *The Economist*, July 16, 1932.

56. Italy, Belgium, Germany, Poland, Hungary, Greece, Spain, Czechoslovakia, Yugoslavia, Albania, Bulgaria, Norway, the Netherlands and Lithuania have adhered to the pact.

50. Cf. Royal Institute of International Affairs, *Bulletin of International News*, July 21, 1932.

51. Cf. *New York Herald Tribune*, July 9, 1932; *New York Times*, July 10, 1932; *Le Temps*, July 9 and 10, 1932.

52. *The Times* (London), July 12, 1932.

the *Entente Cordiale*, as a distinct triumph for French diplomacy, and even as paving the way for a united Franco-British front both against Germany and in future debt negotiations with the United States. In Germany and the United States, however, it was criticized for these very reasons. Furthermore, the fact that the accord, although open to other powers, was published as a Franco-British agreement gave rise to charges of bad faith. In order to allay misapprehensions, the British issued an official

statement on July 14, declaring that "there is no truth in any statement that it is applicable to the question of the British debts to the United States. The use of the words 'European régime' expressly excludes from its purview any questions affecting non-European countries."⁵⁷ Nevertheless, the first favorable impression made by the Lausanne settlement was distinctly dimmed by the emergence of these supplementary pacts and the confusion attendant on their publication.

CONCLUSION

It remains to estimate the actual accomplishments of the Lausanne Conference. On the positive side, reparation as such no longer exists. Even before ratification of the Lausanne settlement, the transitional measures providing for suspension of European intergovernmental obligations afford a breathing-space which counterbalances to some extent the uncertainty caused by the Gentlemen's Agreement. A second positive advantage is to be found in the fact that the Lausanne settlement recognizes the danger to world economy as well as the virtual impossibility, of transferring huge sums of money from one country to another without corresponding exchanges of goods and/or services. In the third place, in recognition of this fact, the final German payment is so hedged about with safeguards that if and when it is made it can neither disturb German economy nor clog the channels of international finance and trade. Moreover, despite the delay on account of the Gentlemen's Agreement, it appears doubtful whether any future reparation conference—to be held in case of non-ratification of the Lausanne Agreement—would be able to turn back the hands of the clock and draw up a settlement which did not recognize these essential economic facts so clearly affirmed at Lausanne.

Finally, the Lausanne settlement seems to have been received with satisfaction by both the British and the French. The former feel that, on the whole, it is the best solution obtainable; the latter appear satisfied despite the undoubted sacrifices which the agreement entails for France. This feeling is due to some extent to the fact that, although France was virtually isolated when the Lausanne Conference opened, at its close M. Herriot had been able, in the eyes of the French, to

establish a close political entente with the British. Furthermore, Paris feels that Lausanne is a prelude to successful negotiations with Washington.⁵⁸

Although from this point of view the Gentlemen's Agreement—which evidently made possible a settlement at Lausanne—may be regarded as a positive achievement, it also constitutes the gravest factor on the negative side, for the postponement of ratification of the Lausanne Agreement until a satisfactory settlement has been made with the United States necessarily prolongs the uncertainty which has been such a serious obstacle to world recovery.

Although France and Great Britain are satisfied, the German reaction to the whole Lausanne settlement, for the present at least, must be placed in the negative column. The Social Democrats and the few remaining Liberals recognize that it represents a great advance, but the powerful Right groups appear thoroughly disappointed. This feeling is probably due in large measure to the fact that the German delegation⁵⁹ projected into the Lausanne deliberations burning political issues which were not mentioned in the final settlement. As a result the Right press in the Reich was able to use these unfulfilled political demands to obscure the concrete achievements of the Conference.⁶⁰

Despite these drawbacks, the outcome at Lausanne seems to have given some measure of hope to the world. M. Herriot, addressing the Assembly of the League of Nations on September 29, 1932, declared:

"... Lausanne is the most important step taken since the war toward re-establishing confidence in political affairs and in business. Lausanne was the 'great, bright spot' in a lurid picture of mistrust, fear and hatred."⁶¹

57. *The Times* (London), July 14 and 15, 1932; *Le Temps*, July 15, 16 and 17, 1932; *Journal de Genève*, July 15, 1932; *Der deutsche Volkswirt*, July 15, 1932.

58. *The Economist*, July 16, 1932.

59. Probably under pressure from Berlin. Cf. p. 224 et seq.

60. Cf. W. Röpke, "Nach Lausanne," and W. Hagemann, "Lausanne und die Zukunft," *Zeitschrift für Politik*, August, September 1932.

61. League of Nations, *Verbatim Record of the 13th Ordinary Session, Fifth Plenary Meeting*, September 29, 1932.